

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
TRIGON BLUE CROSS BLUE SHIELD**



**JANET REHNQUIST
INSPECTOR GENERAL**

**JULY 2002
A-07-02-03009**

Office of Inspector General

<http://oig.hhs.gov/>

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-02-03009

July 16, 2002

Blair Lauver
Vice President of Finance
Trigon Blue Cross Blue Shield
2221 Edward Holland Drive
Richmond, Virginia 23230

Dear Blair Lauver:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Trigon Blue Cross Blue Shield*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FY's) 1988 through 1999.

For Fiscal Years 1988 through 1999, we determined that Trigon Blue Cross Blue Shield (Trigon) under claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$2,677,690. However, Trigon claimed pension costs of \$1,379,473 for Medicare reimbursement. As a result, Trigon did not claim \$1,298,217 in allowable pension costs. This under claim of pension costs was the result of Trigon basing their pension cost calculations on incorrect asset values, and because Trigon neglected to include certain pension contribution amounts on their Final Administrative Cost Proposals (FACPS).

We are recommending Trigon revise its FACPs to reflect the remaining allowable pension costs. Trigon agreed with our recommendations and its response is included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Trigon administered Medicare Part A operations, under cost reimbursement contracts until the contractual relationship terminated in 1999. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations (FAR), and their Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability. The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

OBJECTIVES, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine the allowability of pension costs claimed for FY's 1988 through 1999. Achieving the objective did not require a review of Trigon's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-01-03004). The information obtained and reviewed during those audits was also used in performing this review.

We identified Trigon's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Trigon funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FY's 1988 through 1999. Appendix A contains the details on the pension costs and contributions.

The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Trigon's historical practices. We performed site work at Trigon's corporate offices in Richmond, Virginia. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDING AND RECOMMENDATIONS

For FY's 1988 through 1999, Trigon did not claim \$1,298,217 in pension costs that were allowable for Medicare reimbursement. The pension costs are allowable because the funded portion of CAS computed costs exceeded the costs claimed. The under claim occurred primarily due to two factors. The first factor being that we made adjustments to Trigon's yearly asset values (see segmentation audit report CIN: A-07-01-03004 for details), which resulted in CAS pension costs different from those calculated by Trigon. The second factor primarily responsible for the under claim is that TRIGON neglected to include certain pension contribution amounts on their FACPs. Trigon should revise its FACPs to reflect the additional CAS pension costs that were allowable for reimbursement.

We calculated the allowable CAS pension costs for the Medicare segment and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. See Appendix A for details.

We compared our calculated allowable CAS pension costs to the pension costs claimed on Trigon's FACPs and found:

PENSION COST CLAIMED VARIANCE			
YEAR	PER TRIGON	PER OIG	DIFFERENCE
1988	\$0	\$0	\$0
1989	0	0	0
1990	0	0	0
1991	0	154,275	(154,275)
1992	136,472	178,731	(42,259)
1993	245,123	313,058	(67,935)
1994	301,696	409,813	(108,117)
1995	301,782	433,203	(131,421)
1996	284,988	386,675	(101,687)
1997	109,412	391,859	(282,447)
1998	0	333,456	(333,456)
1999	0	76,620	(76,620)
	<u>\$1,379,473</u>	<u>\$2,677,690</u>	<u>(\$1,298,217)</u>

For 1988 through 1999, Trigon claimed pension costs of \$1,379,473 for Medicare reimbursement. However, the allowable CAS pension costs were \$ 2,677,690. As a result, Trigon could have claimed \$1,298,217 in additional CAS pension costs.

Recommendations

We recommend that Trigon:

Revise its FACPs for FY's 1988 through 1999 to claim additional allowable CAS pension costs of \$1,298,217.

Auditee Response

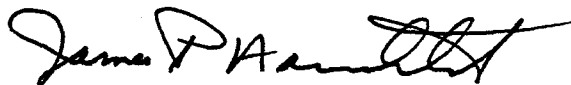
Trigon agreed with our recommendations and its response is included in its entirety as Appendix B.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the CMS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the CMS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS, reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.) As such, within 10 business days after the final report is issued, it will be posted on the worldwide web at <http://oig.hhs.gov/>.

Sincerely,



James P. Aasmundstad
Regional Inspector General for
Audit Services, Region VII

Enclosure

CMS Action Official

Ms. Sonia A. Madison
Regional Administrator, Region III
Suite 216, The Public Ledger Building
150 South Independence Mall West
Philadelphia, Pennsylvania 19106

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1988	Contribution(s)	<u>1/</u> \$0	\$0	\$0
9.00%	Discount for Interest	<u>2/</u> 0	0	0
1/1/88	Pres Val Contributions	<u>3/</u> 0	0	0
1/1/88	Prepayment Credit	<u>4/</u> 0	0	0
1/1/88	Pres Value of Funding	<u>5/</u> 0	0	0
1/1/88	CAS Pension Cost	<u>6/</u> 0	0	0
1/1/88	CAS Funding Target	<u>7/</u> 0	0	0
1/1/88	% Funded	<u>8/</u>	0.00%	0.00%
1/1/88	Funded Pension Cost	<u>9/</u>	0	0
	Allowable Interest	<u>10/</u>	0	0
	Allocable Pension Cost	<u>11/</u>	0	0
	Fiscal Year Pension	<u>12/</u>	0	0
	Medicare LOB%	<u>13/</u>	2.68%	69.58%
	Allowable Pension Cost	<u>14/</u> \$0	\$0	\$0

1989	Contribution(s)	- \$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/89	Pres Val Contributions	0	0	0
1/1/89	Prepayment Credit	0	0	0
1/1/89	Pres Value of Funding	0	0	0
1/1/89	CAS Pension Cost	84,355	0	84,355
1/1/89	CAS Funding Target	84,355	0	84,355
1/1/89	% Funded		0.00%	0.00%
1/1/89	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension		0	0
	Medicare LOB%		1.97%	100.00%
	Allowable Pension Cost	\$0	\$0	\$0

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1990	Contribution(s)	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/90	Pres Val Contributions	0	0	0
1/1/90	Prepayment Credit	0	0	0
1/1/90	Pres Value of Funding	0	0	0
1/1/90	CAS Pension Cost	1,507,710	1,400,837	106,873
1/1/90	CAS Funding Target	1,507,710	1,400,837	106,873
1/1/90	% Funded		0.00%	0.00%
1/1/90	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension		0	0
	Medicare LOB%		0.36%	100.00%
	Allowable Pension Cost	\$0	\$0	\$0

1991	Contribution(s)	\$2,822,792	\$2,656,840	\$165,952
9.00%	Discount for Interest	(196,179)	(184,646)	(11,533)
1/1/91	Pres Val Contributions	2,626,613	2,472,194	154,419
1/1/91	Prepayment Credit	0	0	0
1/1/91	Pres Value of Funding	2,626,613	2,472,194	154,419
1/1/91	CAS Pension Cost	2,923,739	2,751,853	171,886
1/1/91	CAS Funding Target	2,923,739	2,751,853	171,886
1/1/91	% Funded		89.84%	89.84%
1/1/91	Funded Pension Cost		2,472,194	154,419
	Allowable Interest		157,602	9,844
	Allocable Pension Cost		2,629,796	164,263
	Fiscal Year Pension		1,972,347	123,197
	Medicare LOB%		1.58%	100.00%
	Allowable Pension Cost	\$154,275	\$31,078	\$123,197

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment	
1992	Contribution(s)	-	\$2,701,771	\$2,556,054	\$145,717
9.00%	Discount for Interest		(140,742)	(133,151)	(7,591)
1/1/92	Pres Val Contributions	2,561,029	2,422,903	138,126	
1/1/92	Prepayment Credit	0	0	0	
1/1/92	Pres Value of Funding	2,561,029	2,422,903	138,126	
1/1/92	CAS Pension Cost	3,449,147	3,263,120	186,027	
1/1/92	CAS Funding Target	3,449,147	3,263,120	186,027	
1/1/92	% Funded		74.25%	74.25%	
1/1/92	Funded Pension Cost		2,422,903	138,126	
	Allowable Interest		133,151	7,591	
	Allocable Pension Cost		2,556,054	145,717	
	Fiscal Year Pension		2,574,489	150,354	
	Medicare LOB%		1.10%	100.00%	
	Allowable Pension Cost	\$178,731	\$28,377	\$150,354	

1993	Contribution(s)	-	\$6,817,431	\$6,519,609	\$297,822
8.50%	Discount for Interest		(388,653)	(371,675)	(16,978)
1/1/93	Pres Val Contributions	6,428,778	6,147,934	280,844	
1/1/93	Prepayment Credit	0	0	0	
1/1/93	Pres Value of Funding	6,428,778	6,147,934	280,844	
1/1/93	CAS Pension Cost	5,418,089	5,137,246	280,844	
1/1/93	CAS Funding Target	5,418,089	5,137,246	280,843	
1/1/93	% Funded		100.00%	100.00%	
1/1/93	Funded Pension Cost		5,137,246	280,843	
	Allowable Interest		309,305	16,909	
	Allocable Pension Cost		5,446,551	297,752	
	Fiscal Year Pension		4,723,927	259,743	
	Medicare LOB%		1.13%	100.00%	
	Allowable Pension Cost	\$313,058	\$53,315	\$259,743	

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1994	Contribution(s)	-	\$7,801,158	\$295,427
8.00%	Discount for Interest	(395,173)	(380,754)	(14,419)
1/1/94	Pres Val Contributions	7,701,412	7,420,404	281,008
1/1/94	Prepayment Credit	1,096,597	1,037,919	58,678
1/1/94	Pres Value of Funding	8,798,009	8,458,323	339,686
1/1/94	CAS Pension Cost	6,348,233	6,008,547	339,686
1/1/94	CAS Funding Target	6,348,233	6,008,547	339,686
1/1/94	% Funded		100.00%	100.00%
1/1/94	Funded Pension Cost		6,008,547	339,686
	Allowable Interest		255,052	14,419
	Allocable Pension Cost		6,263,599	354,105
	Fiscal Year Pension		6,059,337	340,017
	Medicare LOB%		1.15%	100.00%
	Allowable Pension Cost	<u>\$409,813</u>	<u>\$69,796</u>	<u>\$340,017</u>
1995	Contribution(s)	-	\$11,488,756	\$196,921
8.50%	Discount for Interest	(714,523)	(702,482)	(12,041)
1/1/95	Pres Val Contributions	10,971,154	10,786,274	184,880
1/1/95	Prepayment Credit	2,645,758	2,492,974	152,784
1/1/95	Pres Value of Funding	13,616,912	13,279,248	337,664
1/1/95	CAS Pension Cost	5,847,337	5,509,673	337,664
1/1/95	CAS Funding Target	5,847,337	5,509,673	337,664
1/1/95	% Funded		100.00%	100.00%
1/1/95	Funded Pension Cost		5,509,673	337,664
	Allowable Interest		181,630	11,131
	Allocable Pension Cost		5,691,303	348,795
	Fiscal Year Pension		5,834,377	350,123
	Medicare LOB%		1.42%	100.00%
	Allowable Pension Cost	<u>\$433,203</u>	<u>\$83,080</u>	<u>\$350,123</u>

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment	
1996	Contribution(s)	-	\$8,530,612	\$8,530,612	\$0
8.50%	Discount for Interest	(642,367)	(642,367)		0
1/1/96	Pres Val Contributions	7,888,245	7,888,245		0
1/1/96	Prepayment Credit	6,959,636	6,639,384		320,252
1/1/96	Pres Value of Funding	14,847,881	14,527,629		320,252
1/1/96	CAS Funding Target	6,959,636	6,639,384		320,252
1/1/96	% Funded		100.00%		100.00%
1/1/96	Funded Pension Cost		6,639,384		320,252
	Allowable Interest		0		0
	Allocable Pension Cost		6,639,384		320,252
	Fiscal Year Pension		6,402,364		327,388
	Medicare LOB%		0.93%		100.00%
	Allowable Pension Cost	\$386,675	\$59,287		\$327,388
1997	Contribution(s)	-	\$1,586,207	\$1,586,207	\$0
8.50%	Discount for Interest	(115,156)	(115,156)		0
1/1/97	Pres Val Contributions	1,471,051	1,471,051		0
1/1/97	Prepayment Credit	6,854,570	6,517,657		336,913
1/1/97	Pres Value of Funding	8,325,621	7,988,708		336,913
1/1/97	CAS Funding Target	6,854,570	6,517,657		336,913
1/1/97	% Funded		100.00%		100.00%
1/1/97	Funded Pension Cost		6,517,657		336,913
	Allowable Interest		0		0
	Allocable Pension Cost		6,517,657		336,913
	Fiscal Year Pension		6,548,089		332,748
	Medicare LOB%		0.90%		100.00%
	Allowable Pension Cost	\$391,859	\$59,111		\$332,748

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1998	Contribution(s)	\$12,281,067	\$12,281,067	\$0
9.00%	Discount for Interest	(1,011,397)	(1,011,397)	0
1/1/98	Pres Val Contributions	11,269,670	11,269,670	0
1/1/98	Prepayment Credit	306,478	0	306,478
1/1/98	Pres Value of Funding	11,576,148	11,269,670	306,478
1/1/98	CAS Funding Target	306,478	0	306,478
1/1/98	% Funded		0.00%	100.00%
1/1/98	Funded Pension Cost		0	306,478
	Allowable Interest		0	0
	Allocable Pension Cost		0	306,478
	Fiscal Year Pension		1,629,414	314,087
	Medicare LOB%		1.19%	100.00%
	Allowable Pension Cost	\$333,456	\$19,369	\$314,087
1999	Contribution(s)	\$0	\$0	\$0
9.00%	Discount for Interest	0	0	0
1/1/99	Pres Val Contributions	0	0	0
1/1/99	Prepayment Credit	0	0	0
1/1/99	Pres Value of Funding	0	0	0
1/1/99	CAS Funding Target	0	0	0
1/1/99	% Funded		0.00%	0.00%
1/1/99	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension		0	76,620
	Medicare LOB%		1.26%	100.00%
	Allowable Pension Cost	\$76,620	\$0	\$76,620

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 Reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rate, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).

TRIGON BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1999

- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 19/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.
- 12/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth (1/4) of the prior year's costs plus three-fourths (3/4) of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 13/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Trigon.
- 14/ We computed the allowable Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.



June 27, 2002

Reference: Common Identification Number A-07-02-03009

Mr. James P. Aasmundstad
Regional Inspector General for Audit Services, Region VII
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Dear Mr. Aasmundstad:

Thank you for the opportunity to respond to the OIG draft report entitled, REVIEW OF PENSION COSTS CLAIMED FOR MEDICARE REIMBURSEMENT BY TRIGON BLUE CROSS BLUE SHIELD, dated May 15 2002.

We have reviewed the aforementioned Audit Report in conjunction with our pension actuaries. We have concluded our review and we agree with the Audit Report as presented and do not have any additional comments to add to the report.

Again we appreciate the opportunity to respond and if you have any questions you may call me at 804-354-3489, or you may contact Gary Byrd at 804-354-3438.

Sincerely,

Blair M. Lauver

Blair M. Lauver
Vice President and Controller

Cc: Greg Tambke
Gary Byrd

**AUDIT REPORT CIN: A-07-02-03009
TRIGON BLUE CROSS AND BLUE SHIELD**

**INDIVIDUALS HAVING ACCESS TO SOURCE
INFORMATION REGARDING THIS AUDIT REPORT**

Greg Tambke, Audit Manager
Scott Englund, Senior Auditor
Dave Imhoff, Auditor
Tricia Hankins, Auditor
Tonya Glynn, Auditor
Alan Crego, Auditor

Class of Persons Having Access To This Report

Office Administrative Personnel